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C O N F I D E N T I A L SECTION 01 OF 02 STATE 164866

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E.O. 12958: DECL: 12/05/2017

TAGS: [ETTC](#) [PREL](#) [ENRG](#) [EPET](#) [IR](#) [IN](#)

SUBJECT: IRAN SANCTIONS ACT (ISA, FORMERLY ILSA): REPORTED ACTIONS BY ONGC AND HINDUJA GROUP RE IRAN OIL AND GAS PROJECTS.

Classified By: EEB Acting DAS Stephen Gallogly; Reason 1.4 (d).

¶1. (U) This is an action message; please see paragraph 4 below.

¶2. (SBU) Press reports indicate that ONCG Videsh Limited (OVL) and the Hinduja group are seeking to participate jointly in two Iranian oil/gas projects --the development of Iran's Azadegan oilfield and of some portion (perhaps Phase 12) of the South Pars gas field. The two Indian companies reportedly plan to form a partnership for the purpose of bidding on these and possibly other Iranian projects. The proposal apparently originated with Hinduja which, according to some reports, already has a preliminary accord of some kind regarding Azadegan with Naftiran Intertrade Company (NICO), the Swiss-based Iranian entity that has controlled the field since Japan's Inpex ceased to be the majority partner in October 2006.

¶3. (C) The fact that the firms are linking up for the specific purpose of bidding on Iranian oil and gas projects is a most unwelcome development. Hinduja's reported existing interest in Azadegan, and the fact that this field is a focus of the proposed joint effort with OVL, is of particular concern. The 2006 reduction in the Inpex share of the deal from 75 percent to 10 percent was a major positive event, and re-entry of a foreign participant into the deal would be a significant step backward. Regarding Phase 12 of the South pars project, we have raised serious concerns with the Government of Austria and the energy firm OMV about an MOU with Iran concerning that Phase. OVL is already reportedly partnering with other Indian firms in exploring the offshore Farsi block in Iran, where an oil discovery was announced earlier this year.

¶4. (C-Rel. GOI and companies) Embassy New Delhi and Consulate General Mumbai (which are already alert to this issue) are asked to raise our concerns at senior levels of the GOI and the companies. In doing so, posts may draw, as

appropriate, upon the following points.

--We are very much concerned about reports that OVL and the Hinduja group are planning to form a new joint entity for the express purpose of seeking participation in Iranian oil and gas projects. Specific projects on which there is interest in bidding include the Azadegan oilfield, on which Hinduja, disturbingly, is already said to have a preliminary understanding with the Iranian firm NICO, and a portion of the South Pars gas field.

--Regarding Azadegan, the very large reduction in the Inpex share of the project that took place in 2006 was a significant positive development in diminishing foreign-firm participation in Iran's oil and gas sector. Involvement by Hinduja or an OVL/Hinduja joint entity, would be a serious step in the wrong direction.

--Inpex's pull-back on Azadegan also reflects the exceptional difficulty of doing profitable commercial business in Iran.

--Even though not yet at the stage of signing a firm agreement with Iran, an initiative of this kind, to form a joint enterprise for bidding on Iranian oil and gas projects, has the effect of undercutting international efforts to pressure Iran to comply with UN Security Council resolutions concerning its nuclear activities.

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--At a sensitive time when we are considering elements for a third sanctions resolution, proposals intended to facilitate company involvement in petroleum-sector investment are extremely counterproductive; in effect, they offer to reward Iran for defying the Security Council. This will only harden Iranian resistance.

--Although current UN sanctions against Iran don't deal directly with investment, the P5 +1 offer to Iran last year includes the incentive of increased economic engagement if Iran suspends uranium enrichment and reprocessing.

--If Iran can obtain enhanced economic cooperation without taking any positive steps, it undermines the concept of this incentive, leaving us with fewer options for trying to convince Iran to work with constructively with the international community.

--Congress is intensely interested in the issue of petroleum investment in Iran, and the signing of an oil or gas deal by Indian companies would certainly have negative repercussions on the Hill.

--Agreements involving investment in Iran's oil and gas sector also raise concerns under US law (the Iran Sanctions Act (ISA), which provides for sanctions against companies making certain investments in Iran's oil and gas sector.

--I want to stress that the recent revision of the National Intelligence Estimate (NIE) on Iran in no way diminishes our concerns about Iran's continued pursuit of a nuclear enrichment capability, in defiance of UN Security Council resolutions that such activities should be suspended. Iran remains a serious threat.

--If anything, the revised assessment suggests that Iran is responsive to international pressure. This makes it all the more critical to maintain that pressure --including by avoiding major oil and gas deals.

--For companies: We urge ONGC/Hinduja to reconsider plans for a joint investment vehicle focused on Iranian oil and gas projects. We urge that Hinduja not move forward on any

existing understanding with regard to Azadegan.

--For GOI. We hope the GOI will understand the importance of this matter, and will exert itself to prevent steps by companies that would have so adverse an impact on international diplomacy with respect to Iran and would raise concerns under US law.

¶5. (U) Please include the four letters ILSA in the subject line of reply.

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